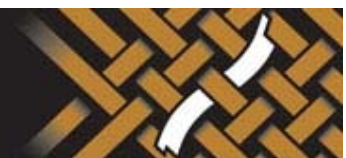


Briefing for Incoming Minister

RACING

June 2011

INTERNAL AFFAIRS



Te Tari Taiwhenua

Introduction

1. The Racing portfolio is concerned with the Government's policy on the thoroughbred (galloping), harness and greyhound racing industries. It also includes the administration of the Racing Act 2003 (the Act), and the stewardship of two Crown funds.

Minister's role in the Racing Portfolio

2. As the Minister for Racing, you are responsible for the Racing Act 2003. Your duties include appointing the New Zealand Racing Board, and tabling the Board's annual report, statement of intent and TAB betting rules in Parliament. You must also table the rules of racing in Parliament.
3. You are responsible for approving the terms of reference and the auditor for the five-yearly performance and efficiency audit of the Board, and you have the authority to direct the Board to investigate any racing matter. Your other portfolio responsibilities include overseeing the Racing Safety Development Fund and the Racing Promotion and Sponsorship Scheme. The Fund is ongoing, but the Scheme ends on 31 July 2011.
4. The portfolio will also require you to frequently engage with other Ministers on issues affecting the racing industry (e.g. gambling, ACC, and tax matters).
5. As Minister you will often be invited to attend and speak at various racing events, including industry meetings, the annual general meetings of the racing code bodies, race meetings and awards ceremonies.
6. There are a number of major issues facing the racing industry, and as Minister you will frequently receive submissions from organisations and individuals on these matters. In many cases, your intervention is sought when stakeholders disagree with the decisions of the various decision-making bodies.

The role of the Department

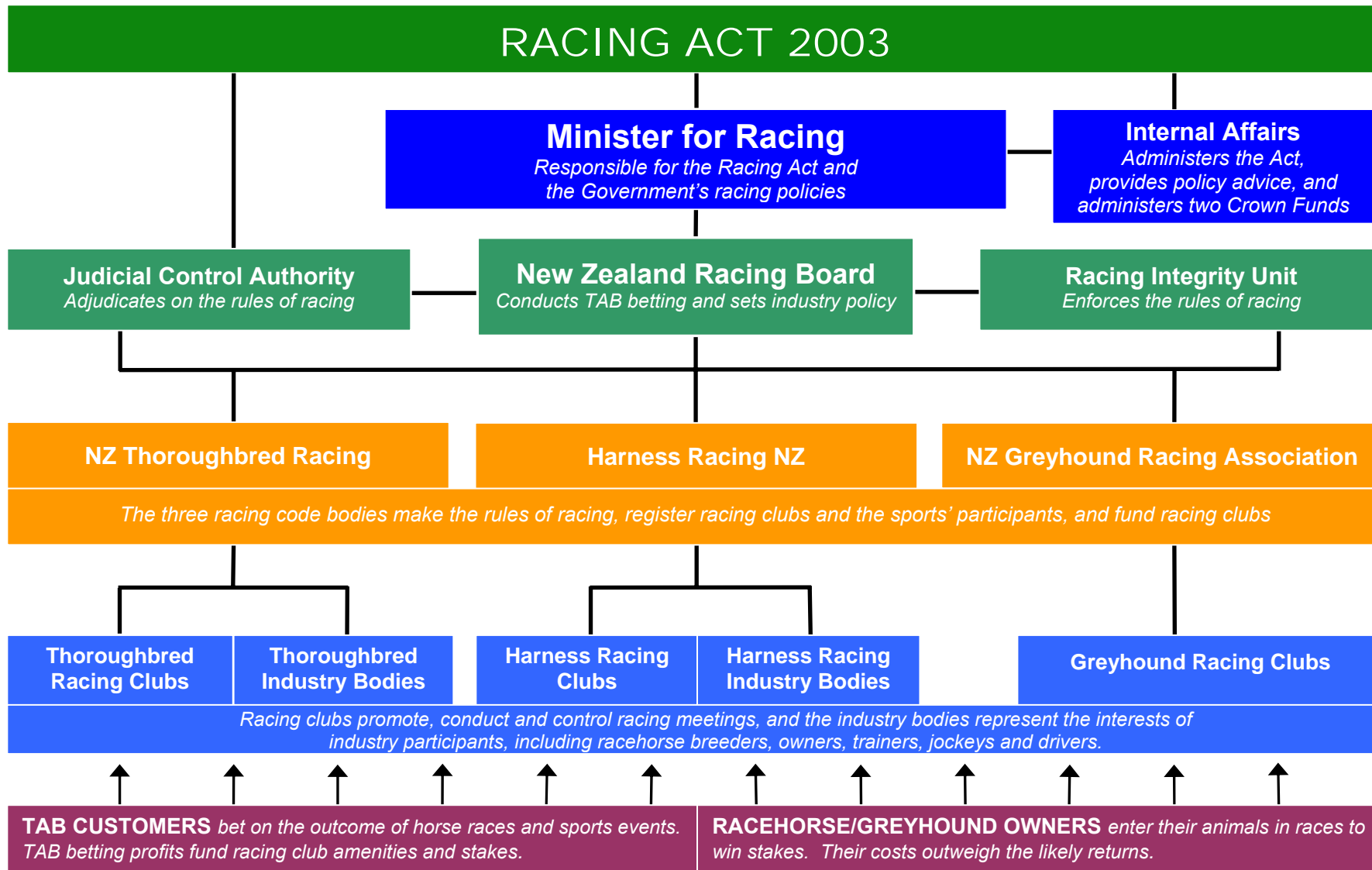
7. The Department's primary objective is to support you in your Ministerial role, and with your responsibilities arising from the portfolio. To do this we provide policy advice on the racing and gambling legislative frameworks. We also support you to develop and manage your relationships with racing industry stakeholders.
8. The Racing portfolio has an operational component. This includes administering two Crown funds, and ensuring NZRB compliance with the TAB betting rules.

9. The Department also administers the Internal Affairs portfolio, the gambling aspects of which are closely linked to the Racing portfolio. Key Departmental contacts are listed in Appendix I.

Framework for Racing in New Zealand

10. The sport of racing is funded by gambling. Racehorse and greyhound owners enter their animals in races to win a share of the stakes. Racing betting is offered on the outcome of those races, and the gambling profits are used to maintain racing industry infrastructure and fund stake monies.
11. Given the unique nature of gambling, successive New Zealand Parliaments have regulated it to ensure games are fair and to minimise the potential negative impacts (e.g. various types of gambling-related crime, and the harms that result from problem gambling).
12. The New Zealand Racing Board (the Board) was established under the Racing Act 2003. Under the Act, it provides TAB racing and sports betting, and promotes the economic development of the racing industry. It pays its TAB betting profits to the three racing code bodies for the funding of racing clubs.
13. There are three racing code bodies in New Zealand. They each make their respective sport's 'rules of racing'. The racing codes bodies are:
 - New Zealand Thoroughbred Racing,
 - Harness Racing New Zealand, and
 - the New Zealand Greyhound Racing Association.
14. Thoroughbred, harness and greyhound racing clubs are members of the relevant racing code body. They promote, conduct and control race meetings under their respective rules of racing. This activity is largely funded by TAB profits, which are distributed to the clubs by the racing code bodies.
15. Under the Act, the Judicial Control Authority is an independent statutory body responsible for appointing race day judicial committees to adjudicate on matters in accordance with the rules of racing. It also appoints tribunals to hear appeals. The Board and the three racing code bodies recently established a new body, the Racing Integrity Unit, to enforce the rules of racing on the codes' behalf.
16. The racing industry also comprises a range of businesses and people who derive their livelihoods from racing. The activities include breeding, selling, training, racing, and keeping horses or greyhounds. For most, racing a horse or greyhound is a hobby as the overall costs of ownership far outweigh the returns.

Overview of Racing in New Zealand



Economic and Social Impact of Racing

17. The racing industry makes a significant contribution to New Zealand's GDP, and creates employment and export opportunities. The Board sought to quantify the economic and social impacts of the racing industry and commissioned studies by the Melbourne-based economic consultancy IER Pty Ltd (IER).

Economic impact

18. In 2010, IER reported that the industry had a significant economic impact on New Zealand's GDP, employment and exports. IER found that, in 2008/09:

- Racing made a direct contribution of \$464 million to GDP, and generated more than \$1,635 million (0.9 per cent) if the indirect impact of expenditure in the racing industry is taken into account.
- Racing directly sustained 8,877 full-time equivalent (FTE) jobs, and when the indirect impact of racing is taken into account, the total employment increased to 16,934 FTE jobs. More than 52,000 people participated in the racing industry (this figure included volunteers and owners).
- The racing industry generated more than \$167 million in export sales of thoroughbred and standardbred horses. Australia was New Zealand's biggest thoroughbred export market, followed by countries in Asia. Approximately 1,570 thoroughbreds were exported.

19. The 2010 study showed that the racing industry had contracted when compared to an earlier IER study conducted in 2004. Racing made a lesser contribution to the nation's GDP (as a percentage of total GDP), and the number of jobs sustained directly and indirectly by the industry had declined.

Social impact

20. The 2010 IER study found that the New Zealand racing industry makes a significant contribution to community social benefit in terms of community building and providing leisure activities. Many racing clubs share their facilities with community organisations on non-racedays for activities such as riding for the disabled, Scout and Girl Guide events, car rallies, and A&P shows. There are more than 29,000 members of racing clubs, and there is a high level of voluntary work within the industry. IER estimates that over 3,270 volunteers participate in racing clubs, including racing club committee members.

Current Work Programme

21. For 2010/11, your predecessor agreed to the following Racing priorities with the Prime Minister:

- Support the New Zealand Racing Board and key industry organisations as they develop an efficient and cost-effective racing industry.
- Support the New Zealand Racing Board and the racing code bodies as they establish a Racing Integrity Unit.
- Encourage the racing industry to support racing clubs' on-course infrastructure.

22. Updates on the current Racing priorities are below. You may wish to consider refreshing these priorities.

Efficient and cost-effective racing industry

23. There are chronic issues facing the racing industry, particularly for thoroughbred racing, which makes the largest economic contribution of the three racing codes. With the exception of a few glamour and community race days, racing has lost its mainstream consumer appeal. It has struggled to compete against an increased range of gambling and entertainment options, and is suffering from a lack of investment and a long-term decline in its core betting income. Racing must reinvigorate its offering if it is to become more appealing to consumers.

24. The decline in racing's income has been offset variously by tax changes, access to gaming machine revenue, drawing on reserves and, more recently, direct government subsidies for infrastructure and stakes. In these straitened times, it is unlikely to secure significant new sources of revenue to offset further declines.

25. New Zealand Thoroughbred Racing (NZTR) has recently acknowledged that racing's current position is not sustainable. It is consulting industry organisations on a range of proposals to improve the industry's prospects. Implementing change in racing will require strong leadership, as previous attempts have failed. You can expect to receive representations from NZTR on its plans for the future.

Racing Integrity Unit

26. The Racing Integrity Unit was established by the Board and the three racing code bodies and commenced operations on 1 February 2011. Its role is to enforce the rules of racing on the codes' behalf. It does this under written delegations from the codes, which hold primary responsibility for the rules.

Racing club infrastructure

27. The Government makes a contribution to racing club infrastructure through the \$1 million per annum Racing Safety Development Fund (the Fund), but otherwise racing clubs are responsible for their own facilities.
28. The Fund supports projects that enhance racecourse safety. It was established to encourage the industry to address years of deferred racecourse maintenance. Projects have included the replacement of unsafe running rails, grandstand structural repairs, and the construction of secure fencing to contain horses.
29. It may be timely to have a fresh look at the Fund to determine whether it is achieving its objectives and whether it could be delivered more efficiently. For example, it could be appropriate to set Ministerial priorities for the Fund, especially in light of a possible thoroughbred racing proposal to develop a network of core racing venues (approximately 15 of the 51 racecourses).

Short Term Issues

30. There are a number of other racing issues that will require your attention in the short term. These are discussed below.

Appointments to the New Zealand Racing Board

31. You are responsible for appointing the seven members of the New Zealand Racing Board's governing body. The current membership is listed in Appendix I. You will note that the terms of membership for three members expire at the end of the current racing season (31 July 2011).
32. The Department will provide you with a briefing on this by 10 June proposing the next steps in the appointments process, which your predecessor started. It is desirable that the appointments are made before the commencement of the new racing season on 1 August 2011.

Racing Safety Development Fund

33. At the time of writing, the Racing Safety Development Fund working group was scheduled to meet on 10 June to consider 64 applications seeking \$1.6 million to fund projects.
34. As the Minister responsible for the Fund, you are required to write to successful applicants to advise them of the outcome before the end of the financial year so that the funding can be accrued. You will receive a briefing on this by 17 June.

Racing Promotion and Sponsorship Scheme

35. 2010/11 is the last year of the \$3 million per annum Racing Promotion and Sponsorship Scheme. This Scheme was established in Budget 2008 for a 3-year period to provide co-sponsorship for key New Zealand feature races in order to significantly increase the prize money in those races. The Scheme was intended to lift racing's profile, encourage greater engagement with the industry, and generate new sponsorship.
36. Given the racing industry's current financial position, it is very unlikely that the recipient racing clubs will be able to keep the prize money at the higher level without the Scheme. This will mean less prize money paid to the few racehorse and greyhound owners that win the previously-subsidised races. This will impact particularly on the thoroughbred code, which received the lion's share of funding from the Scheme. You may receive representations on this from industry groups. The Department will review the Scheme by 31 July 2011.

Racing and Gaming Machines

37. Racing clubs can apply for grants from societies that operate gaming machines in pubs, and the Board and racing clubs can apply to operate gaming machines in TABs (the Board only) and at racecourses (the Board or the relevant club).
38. In the past, there has been community disquiet about the level of gaming machine funds granted for stake money instead of for community purposes. The Board is considering becoming a gaming machine operator in its own right, and applying the gambling profits generated in its TAB agencies to support racing.
39. A reputable racing statutory body operating gaming machines on racing premises for racing purposes could potentially address the public concern surrounding pub and club gaming machine profits funding racing stakes. The Board is discussing its proposal with the Department's gambling regulation staff.

Longer Term Issues

40. There are at least two further gambling issues in which the Board has expressed an interest, and these are outlined below. Both of these issues would require legislative change to implement and could be controversial. Notwithstanding your strong interest, gambling issues are the primary responsibility of the Minister of Internal Affairs who has indicated that there will be no major gambling reform during the current term of Government.

Internet gambling

41. The TAB and NZ Lotteries are the only gambling operators permitted to offer their products online within New Zealand. Although New Zealanders are not prohibited from gambling online with overseas providers, it is illegal to promote overseas gambling opportunities within New Zealand. This policy is intended to give New Zealanders access to relatively safe, regulated online gambling products that benefit racing and communities, and discourage the promotion of potentially more harmful overseas online gambling opportunities.
42. The Board and other gambling operators have previously submitted that they should be authorised to conduct and promote a wider range of online gambling opportunities to meet consumer demand for these games (e.g. online poker, instant games, and casino games). However, the demand for any one of these products is currently very small (less than 1 per cent of adult New Zealanders). You can expect to receive industry submissions on this issue.

TAB offering betting on events other than racing or sports

43. The Board has previously indicated its wish to offer TAB wagering on events other than racing or sports (e.g. the results of General Elections and televised contests like “Dancing with the Stars”).
44. In a recent New Zealand Racing Board annual report, the Board noted that overseas betting agencies offer New Zealanders the opportunity to bet on these types of events via the internet. It believed that this represented a “direct customer, business, community and economic loss to New Zealand”. Once again, you can expect to receive industry submissions on this issue.

Upcoming Racing Events

Australasian Racing Ministers’ Conference

45. Racing Ministers from New Zealand and the eight Australian states and territories meet once or twice a year to discuss issues of mutual concern. Western Australia is hosting the 2011 Conference on 23 September. The Department will provide you with a briefing on this by 17 June.

Annual General Meetings of Racing Code Bodies

46. The Minister for Racing is often invited to address the annual general meetings of the three racing code bodies. The harness racing AGM will be held in Christchurch on 22 July. Dates for the other two AGMs are yet to be notified.

APPENDIX I**Key Departmental Contacts**

Name	Position	Telephone	
		direct line	after hours
Brendan Boyle	Chief Executive	04 495 9396	
Paul James	Deputy Chief Executive, Policy, Regulatory and Ethnic Affairs	04 495 9329	
Marilyn Little	Acting General Manager, Policy	04 494 0589	
John Markland	Gambling and Racing Policy Manager	04 495 9354	
Stephen Reilly	Senior Policy Analyst, Policy	04 495 9303	

New Zealand Racing Board Membership

Member	Membership commenced	Membership expires
Michael Stiasny (independent chairperson)	1 January 2007	31 July 2012
Warren Bell (independent member)	1 April 2006	31 July 2011
Liz Dawson (independent member)	1 August 2007	31 July 2013
Thayne Green (greyhound-nominated member)	1 August 2003	31 July 2011
Alan Jackson (thoroughbred-nominated member)	1 December 2010	31 July 2011
Simon Moutter (independent member)	1 August 2010	31 July 2012
Ray O'Connor (harness racing-nominated member)	1 December 2006	31 July 2012

APPENDIX II

Key Legislation Relevant to the Racing Portfolio

Racing Act 2003	
Responsible Minister	Minister for Racing
Administering Department	Internal Affairs
Purpose	The Racing Act seeks to provide effective governance arrangements for racing; facilitate betting on racing and sports events; and promote the long-term viability of the New Zealand racing industry.
Comment	Under the Racing Act, racing industry organisations are accountable to Parliament for the use of their statutory powers, but the industry is otherwise responsible for its own affairs.

Gambling Act 2003	
Responsible Minister	Minister of Internal Affairs
Administering Department	Internal Affairs
Purpose	Among other things, the Gambling Act seeks to control the growth of gambling, ensure that money from gambling benefits the community, and limit opportunities for crime or dishonesty associated with gambling.
Comment	Under the Gambling Act, the Board is the sole provider of racing and sports betting in New Zealand, and is permitted to offer these products in casinos, and via remote technologies (e.g. telephony, the Internet, WAP, and digital television). The Board and racing clubs are permitted to operate gaming machines on racing premises (i.e. TABs and racecourses).

Gaming Duties Act 1971	
Responsible Minister	Minister of Revenue
Administering Department	Inland Revenue
Purpose	The Gaming Duties Act requires the NZ Racing Board, NZ Lotteries, gaming machine operators and casino operators to pay industry-specific duties
Comment	From 1 August 2006, the NZ Racing Board's headline rate of duty was reduced from 20 per cent of gambling profits to 4 per cent. This change aligned its duty with that paid by the casinos. The racing industry receives additional annual income of around \$35 million as a result of the duty reduction.

Key Racing Stakeholders

Racing Act Statutory Bodies	
New Zealand Racing Board	The statutory objectives of the Board are to promote the racing industry; to facilitate and promote racing betting and sports betting; and to maximise its profits for the long-term benefit of racing.
Judicial Control Authority	The JCA appoints judicial panels for race meetings and to hear non-race day enquiries relating to the rules of racing. The JCA also appoints tribunals to hear appeals. Its role is strictly adjudicatory.

Industry Organisations Recognised Under the Racing Act	
NZ Thoroughbred Racing	The three racing code bodies are responsible for their respective rules of racing and for licensing and registering participants in their sporting code (e.g. horses, greyhounds, trainers, jockeys, drivers etc.).
Harness Racing New Zealand	
NZ Greyhound Racing Assn	
Racing Clubs	In 2010, 62 thoroughbred racing clubs, 47 harness racing clubs and 12 greyhound racing clubs conducted a total of 985 race meetings in accordance with the relevant racing code's rules of racing.
Sector Groups	The following organisations represent the interests of various industry professionals and participants: <ul style="list-style-type: none"> • New Zealand Racehorse Owners' Federation • NZ Thoroughbred Breeders' Association • New Zealand Trainers' Association • New Zealand Jockeys' Association • NZ Standardbred Breeders' Association • NZ Harness Racing Trainers' and Drivers' Assn • New Zealand Trotting Owners' Association.

Other Racing Industry Stakeholders	
Racing Integrity Unit Ltd	The RIU investigates and prosecute breaches of the rules of racing. It does this under formal written delegations from the three racing code bodies, which previously undertook these tasks.
New Zealand Bloodstock Ltd	NZB is New Zealand's premier thoroughbred sales company. In January / February each year it runs the national yearling sales series at Karaka, which is the focal point of the thoroughbred breeding industry.